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Enhancing Social Participation for Combating Labour Market Crisis

Zahra Karimi Moughari

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The global crisis has deepened and most industrialized and developing countries have faced the risk of a prolonged labour market recession that can lead to a catastrophic rise in unemployment and decline in real wages. Several countries have used neoclassical tools to lessen the labour market and social consequences of the crisis; mainly through lowering interest rates to support private investment; but the plans have not succeeded so far; as investment counteracts in the reaction to declining effective demand. While, public work projects, by encouraging social participation in implementing beneficial community-based projects, can be a certain means to stimulate economic recovery and in the meantime to yield maximum employment creation.

Iran has been harshly affected by the global economic crisis and international sanctions and has experienced considerable decline in GDP growth and an even sharper contraction in employment and real wages. Following neoclassical ideas, Iranian government tried to encourage private sector investment by credit schemes and cash transfers. Huge amount of highly subsidized loans to private sector by state-own banks could not create sufficient sustainable jobs and the number of unemployed increased rapidly and created concern of social unrest and economic crisis.

Public Work Programs an Applicable Alternative

Public work schemes have been used successfully in several developing countries like India, Argentina and South Korea; and Iran armed with sufficient knowledge can apply similar programs for combating labour market problems. In Iran's unfavourable business climate, public works scheme is an effective active labour market policy that can be used as an instrument of last resort in fighting chronic unemployment and poverty. Public work schemes, with direct involvement of local communities, can be the most efficient program to prevent unemployment and income inequality to become a social disaster. Iran has enormous investment deficit in infrastructure and public services, such as soil conservation, improvement of irrigation and water delivery systems, forestation, flood control, roads, drainage, sewage and sanitation, schools and health care centres; especially in remote and deprived regions; while, many people who are willing to work, are excluded from productive remunerative employment. Public works can revitalize the sense of civic duty, citizenship, social cohesion,

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and community involvement and in the same time stimulate economic activities, especially in backward areas.

Public work projects can be designed by the collaboration of local communities, government officials and NGOs such as *Towns' and Villages' Councils*, environment protection groups, and women and children advocates. Local residents can participate in beneficial community-based activities that accelerate the economic growth and have intergenerational payoffs. Furthermore, engagement of local community in the process of project implementation can improve community members' abilities to assume responsibility of completed projects, thus guaranteeing better maintenance of the assets created.

An efficient institutional structure is needed to support smooth implementation of projects and ensuring transparency and accountability. According to Iran's constitution (1980) *Towns' and Villages' Councils* are the means of public participation in policy making and supervision and can define projects regarding the needs of local population. So far, elected *Towns and Villages' Councils* have had negligible effects on economic and social well-being of their constituency. Most of the *Councils* do not have financial and technical capability to design and implement beneficial projects for their own communities and have not been successful to mobilize local physical and human resources to stimulate the economic and social changes. Public work schemes are excellent opportunities for capacity building in local institutions.

Public works programs are adaptable and can easily be tailored to needs of Iran's deprived regions, where the poor are disproportionately located, taking into account their capacities and constraints. In the first stage, public work programs can be implemented in 5 provinces which are in border lines with ethnic minorities and chronic unemployment and underemployment problems. It is expected that sufficient number of projects to be defined by the active involvement of local beneficiaries. Total number of workers in programs will be about 1.5 million persons. As the market wage in the vast informal sector all around Iran is below the formal minimum wage (about USD 5.4) in vast informal sector all around Iran, so a wage rate of USD 3 per day can be reasonable in public work projects. Labour costs consist 70 to 80 percent of total costs of labour intensive projects, and 20-30 percent of program costs are provided for the nonwage component to cover the cost of materials, wages for skilled workers and administrative expenses, and projects to be fulfilled during 90 to 180 days, total cost of public work schemes is between USD 585 millions to USD 1 billion which is less than 0.5 percent of Iran's GDP and less than 10 percent of the government expenditure. Iranian Government can finance public work programs by cutting cash transfer¹ to upper-middle income and rich households or by a fraction of the oil revenues to improve life quality and productivity of Iranians in backward regions.

Scarce jobs generally must be rationed among low income households. Given the large numbers of unemployed poor in Iran's deprived regions, it is possible that political considerations influence the procedure of workers selection, favouring the factions or groups in power or their supporters and discrimination against special groups. There might be several shortcomings, such as the difficulty of arranging appropriate organizations, weak designing and implementing capacities in local levels and the risk of abuse of resources, corruption, and clientelism.

If public work projects cannot be designed and implemented by harmonised cooperation of local people, government officials and NGOs, its impacts on the livelihood of people in deprived areas will be limited and after a while, people

¹ Since 2010, the government pays 450000 rials to every Iranians to compensate energy price increase.

will start to think that public works are new source of rent-seeking for interest groups. Political will to empower *Towns' and Villages' Councils* and other NGOs to enhance social participation is a key factor against political manipulation of public work schemes; as social cohesion can put in place strong checks and balances against possible error, fraud, and corruption.

Policy Implications

For millions of unemployed and underemployed workers decent living is out of reach. Although, pro-growth, pro-private investment strategy has failed in sufficient job provision in the past 3 decades, it has remained the main tool for dealing with serious labour market problems. However, the need to find more sustainable sources of economic growth, particularly through domestic demand and wage-led alternatives, encouraged a group of countries to implement alternative policies, such as public work programs. ILO insists that it is crucial to implement a coherent, job-oriented strategy to address the basic needs of millions workers and their families.

In sluggish economic situation and unfavorable business environment in Iran, private sector is not interested in productive investment; and credit facility cannot bond the creditor to use the money in productive and job generating businesses. Escalating unemployment and low-paid insecure jobs and increasing concern about economic and social costs of raising poverty force government to react to these problems by effective policies. Public work schemes can be the most efficient program to prevent the emergence of a serious labour market crisis. Public work schemes can be implemented in deprived region alongside Iran's border with ethnic minorities and chronic unemployment, underemployment and poverty with direct involvement of local beneficiaries to stimulate the economy of backward provinces, create most needed infrastructure, improve the standard of living of people and encourage private investment.

At first stage, public work programs can be implemented in 5 provinces of Iran with the highest unemployment rates. Government is capable to finance the schemes to create 1,500,000 jobs, using less than 0.5 percent of Iran's GDP and 10 percent of government expenditure.

Experiences of public works in Argentina, India and other countries in developing world, create hope and optimism that similar programs can be applied in Iran to maximize success for promoting social cohesion and economic development. Otherwise, by continuing unfavourable economic trend, Iran will face a serious labour market crisis in the near future that can threaten its social and political stability.

